

PUBLIC EMPLOYEES RETIREMENT BOARD

Employee Investment Advisory Council

100 North Park

Helena MT 59601

May 10, 2006

Kathy Samson; Council Chair with the following in attendance, called the meeting to order:

Council Members:

Tom Bilodeau, Labor Organization Representative

Robert Bugni, Board of Investments Representative

Paula Stoll, State Employee Representative

Angela McDannel, State Employee Representative

Mary Spaulding, State Employee Representative

Kevin McRae, University System Representative

Ron Alles, Local Government Employee Representative

James Helgeson, Local Government Employee Representatives

Pam Fleisner, School District Employee Representative

Jim Christnacht, Retired Public Employee Representative

Council Members who were excused:

Katharine Harris, Local Government Representative

Tom Schneider, Labor Organization Representative

Others in attendance are as follows: MPERA staff: Melanie Symons, Carolyn Miller, Rob Virts, and Joel Thompson.

Howard Biggs of Arnerich Massena & Associates, Inc. presented the 457(b) & 401(a) fund search results.

HOUSEKEEPING ITEMS

Ron Alles moved to accept the minutes of the April 6, 2006 EIAC meeting; James Helgeson made the second. The motion passed unanimously.

INVESTMENT POLICY STATEMENT REVIEW

Kathy will enhance the language of the May 2006 Draft;

- 1) The introduction will be revised to say "EIAC will state the rationale for any extended review or probation status; expectations for future actions; and intended timelines".
- 2) Section C will be massaged to reflect "review" has concerns about performance or other factors that bear further review. "Probation" means the fund has unsatisfactory performance or other factors that have changed since the fund was hired. If the performance does not improve or the other factors don't change to the satisfaction of the board; the fund may be terminated due to unacceptable factors.

REQUEST FOR PROPOSAL

Tom Bilodeau stepped out of the RFP process due to his current job responsibilities coordinating NEA Member Benefits/ SBG 403(b) and 457 offerings to MEA-MFT local unions. Tom was concerned that his current job responsibilities might raise potential conflict of interest issues should the NEA/SBG bid on the state 457/DC administration. The RFP committee now consists of:

3 MPERA staff: Kathy Samson, Rob Virts, and Melanie Symons

3 EIAC members: Mary Spaulding, Paula Stoll, and Jim Christnacht

2 PERB members: Terrance Smith and Beth Nedrow

The RFP committee will review the 1st RFP draft on June 12; the PERB will review the 1st RFP draft at their July 6 meeting.

EDUCATION SERVICES

- General Education: Ron Alles & Mary Spaulding think we would touch more people with in house education services. Staff can not offer financial advice but may be able to provide retirement planning. Kathy Samson has a certified retirement counselor designation which allows her to do retirement planning.
- Individual Assistance: Ron Alles thinks rather than the vendor's in-state person providing individual assistance members could consult a local financial advisor. Kathy Samson stated there is some history of DC plan members consulting financial advisors who did not understand our plan. Mary Spaulding suggested contracting with a "preferred plan financial advisor provider".
- James Helgeson suggests we develop intended education; accept vendor bids; analyze in house costs; and declare if the education will be in house or vendor provided when the proposals are opened. Develop these education opportunities separately from the record keeping and administrative services. Tom Bilodeau thinks the VEBA RFP process separated the education component and that this is a practical approach.

457(b) DEFERRED COMPENSATION PLAN INVESTMENT OPTION SEARCH

On March 30, 2006 the PERB approved termination of the Templeton Foreign Large Cap Value Fund due to change in management followed by decline in performance. Ron Alles moved to recommend the PERB **replace** Templeton Foreign Large Cap Value fund with Dodge & Cox. The rationale is Dodge & Cox has an outstanding risk reward profile; the cost structure is ideal; performance is relative; it has a full five year history for the participant to view with. Bob Bugni made the second; the motion passed unanimously.

On March 30, 2006 the PERB terminated the Neuberger Berman Genesis Trust as a Small Cap Blend fund due to category drift to Mid Cap Growth. Ron Alles moved to recommend **retention** of the Neuberger Berman Genesis Trust as a Mid Cap Blend. The rationale is based on satisfactory past performance as a Small Cap Blend; and its popularity with plan participants who wish to remain in this fund even though it has migrated from Small to Mid Cap Blend. Participants currently in the Neuberger Berman Genesis Trust will not be mapped back to the Small Cap

Blend fund; but will remain in the fund unless they choose to transfer. Mary Spaulding made the second; the motion passed unanimously.

Mary Spaulding moved to **replace** the Neuberger Berman Genesis Trust Small Cap Blend fund with the Vanguard Small Cap Index Inst'l fund. Bob Bugni's rationale is it's a very low cost fund; very well diversified; participants will get the index return at a very low fee; with no tracking error, as this fund will not under perform the index. It fits what Bob feels we need to do with the IPS; offer both passive and active funds. Choosing the Vanguard Small Cap Index Inst'l fund will offer a passive as well as an active option in the small cap. Tom Bilodeau seconded the motion; the motion passed unanimously. The Vanguard Small Cap Index Inst'l fund is currently the funded product in the 401(a) plan where we offer the active/passive structure.

401(a) DEFINED CONTRIBUTION RETIREMENT PLAN INVESTMENT OPTION SEARCH

Brown Capital Small Company Institutional Small Cap Growth fund has been on probation since April 13, 2005 due to a 3-year history of underperformance. Kevin McRae moved to **terminate** Brown Capital Small Company due to unsatisfactory performance. Angela McDannel made the second; the motion passed unanimously.

INVESTMENT OPTION SEARCH FOR BOTH PLANS

457(b) DEFERRED COMPENSATION PLAN & 401(a) DEFINED CONTRIBUTION RETIREMENT PLAN

Artisan Mid Cap Investors has been on probation for two years due to a 3-year history of under performance and capitalization drift. Pending action depended on search results; Neuberger Berman Genesis was included in the search. Tom Bilodeau moved to **terminate** Artisan Mid Cap Growth fund and **replace** with the Munder Y share class in **both the 457(b) & 401(a) plans**. The rationale was that the Munder Y share class has low volatility; good returns; and a low fund expense ratio for administrative costs. Ron Alles made the second; the motion passed unanimously.

On March 30, 2006 the PERB approved termination of the 457(b) plan RS Diversified Growth Small Cap Growth fund due to performance issues. Kevin McRae moved to **replace** the RS Diversified Growth Small Cap Growth fund in the **457(b)** and the Brown Capital Small Company Institutional Small Cap Growth in the **401(a) plan** with Managers AMG Essex Sm Micro Cap Growth. The rationale is that Essex has better performance with less volatility.

PENDING WORK

- 1) Investment Policy Statement Review
- 2) Request for Proposal
- 3) Investment Options between the plans
- 4) 457 Plan survey

CLOSING BUSINESS

EIAC will meet tentatively July 13, 2006. Kathy Samson adjourned the meeting.